

Designing Organizational Structure: Specialization and Coordination

Learning Objectives

- Explain why most organizations initially have a functional structure and why, over time, problems arise with this structure that require a change to a more complex structure
- Distinguish among three kinds of divisional structures (product, geographic, and market), describe how a divisional structure works, and explain why many organizations use this structure to coordinate organizational activities and increase their effectiveness

Learning Objectives

- Discuss how the matrix and product team structures differ, and why and when they are chosen to coordinate organizational activities
- Identify the unique properties of network structures and the conditions under which they are most likely to be selected as the design of choice

Functional Structure

- It is a design that groups people together on the basis of their common expertise and experience or because they use the same resources
- Functional structure is the bedrock of horizontal differentiation
- An organization groups tasks into functions to increase the effectiveness with which it achieves its goals

Figure 6.1 – Functional Structure

A. This format shows that each function has its own hierarchy.

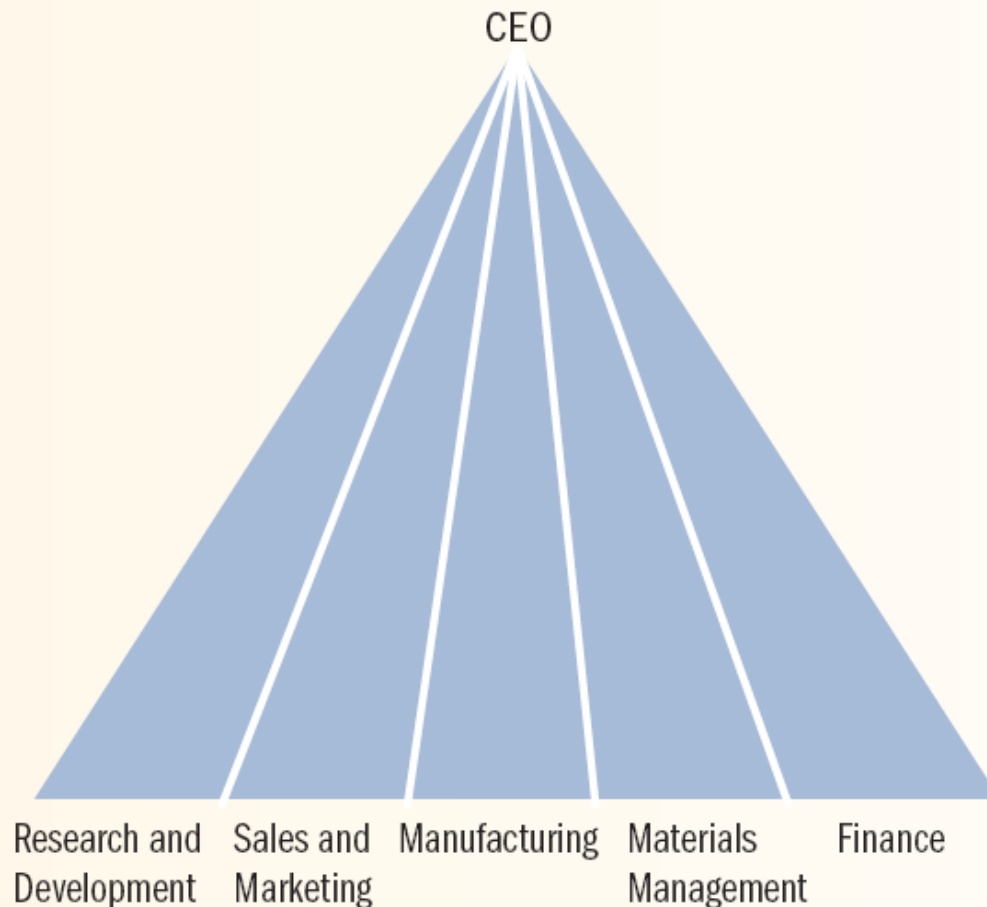
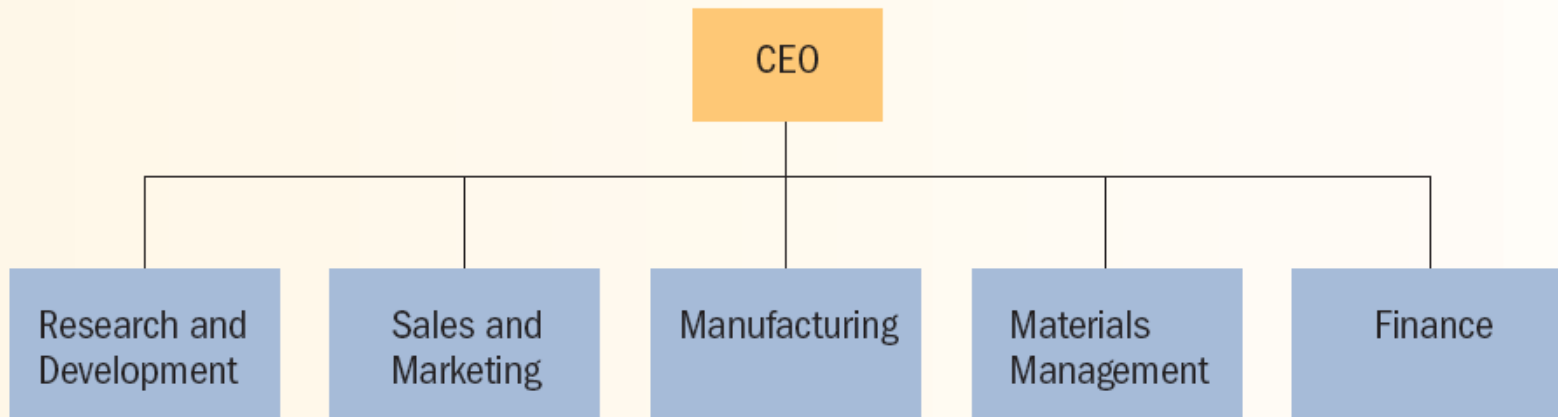


Figure 6.1 – Functional Structure (cont.)

B. This format shows the position of each function within the organization's hierarchy.



Advantages of a Functional Structure

- Provides people with the opportunity to learn from one another and become more specialized and productive
- People who are grouped together by common skills can supervise one another and control each other's behavior
- People develop norms and values that allow them to become more effective at what they do

Control Problems in a Functional Structure

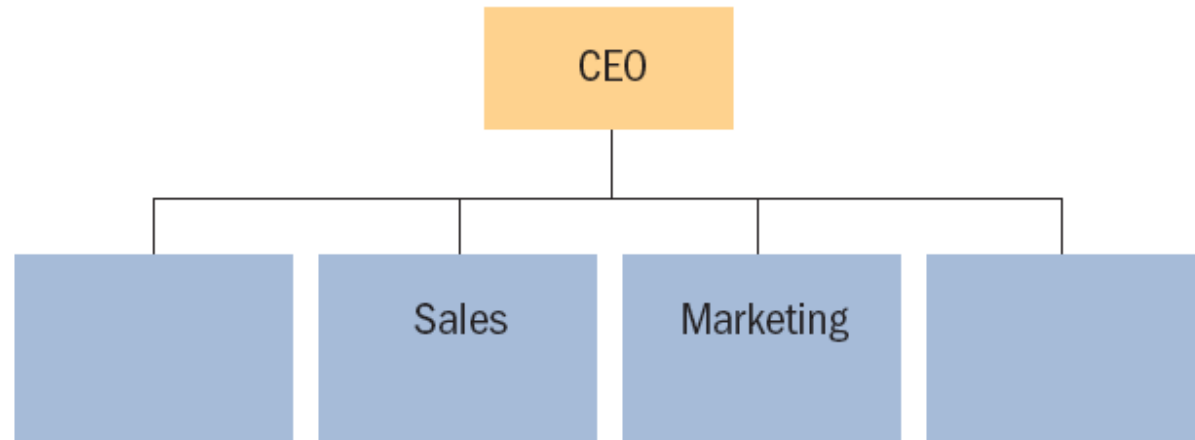
- Communication problems
- Measurement problems
- Location problems
- Customer problems
- Strategic problems

Solving the Control Problems in a Functional Structure

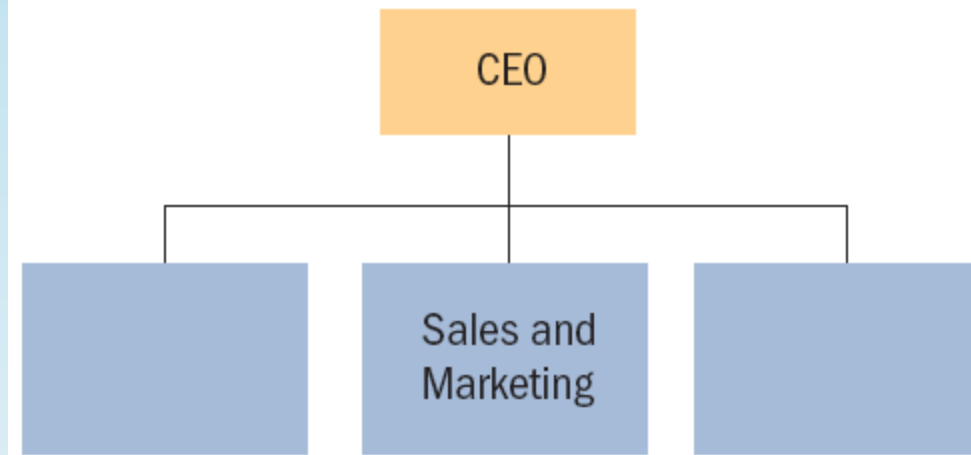
- Managers can solve control problems by redesigning the functional structure to increase integration between functions

Figure 6.2 – Improving Integration in a Functional Structure by Combining Sales and Marketing

A. Before



B. After



From Functional Structure to Divisional Structure

- Functional structure is appropriate if the organization:
 - Limits itself to producing a small number of similar products
 - Produces those products in one or a few locations
 - Sells them to only one general type of client or customer

From Functional Structure to Divisional Structure (cont.)

- As organizations grow, they produce more products and serve many different types of customers
- A new structure is needed that will
 - Increase manager's control of individual subunits
 - Integrate the operation of the whole company and ensure subunits are meeting organizational goals

Differentiation and Integration

- This more complex structure is based on:
 - Increasing vertical differentiation
 - Increasing horizontal differentiation
 - Increasing integration

Figure 6.3 – Differentiation and Integration: How Organizations Increase Control Over Their Activities

A. Vertical differentiation:
Creating a hierarchy of
authority to improve
coordination *vertically*
between subunits

Horizontal differentiation:
Creating separate subunits
to increase control *within*
a subunit

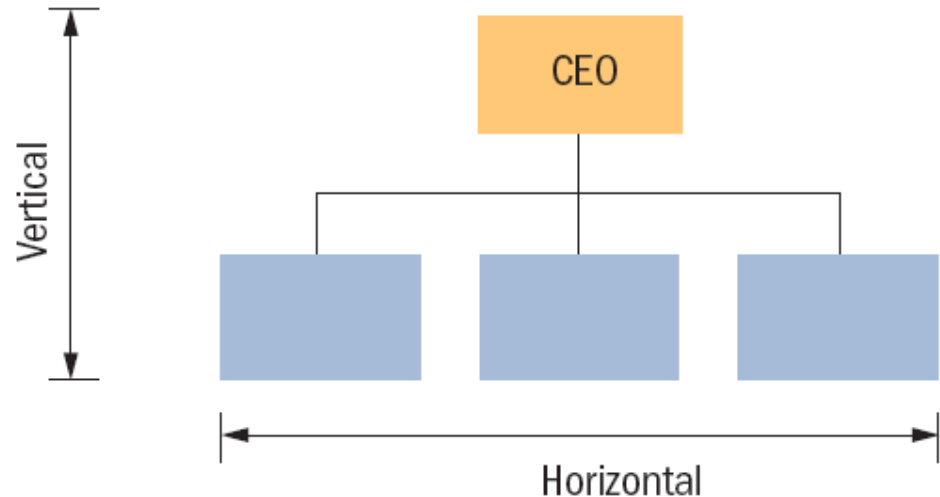
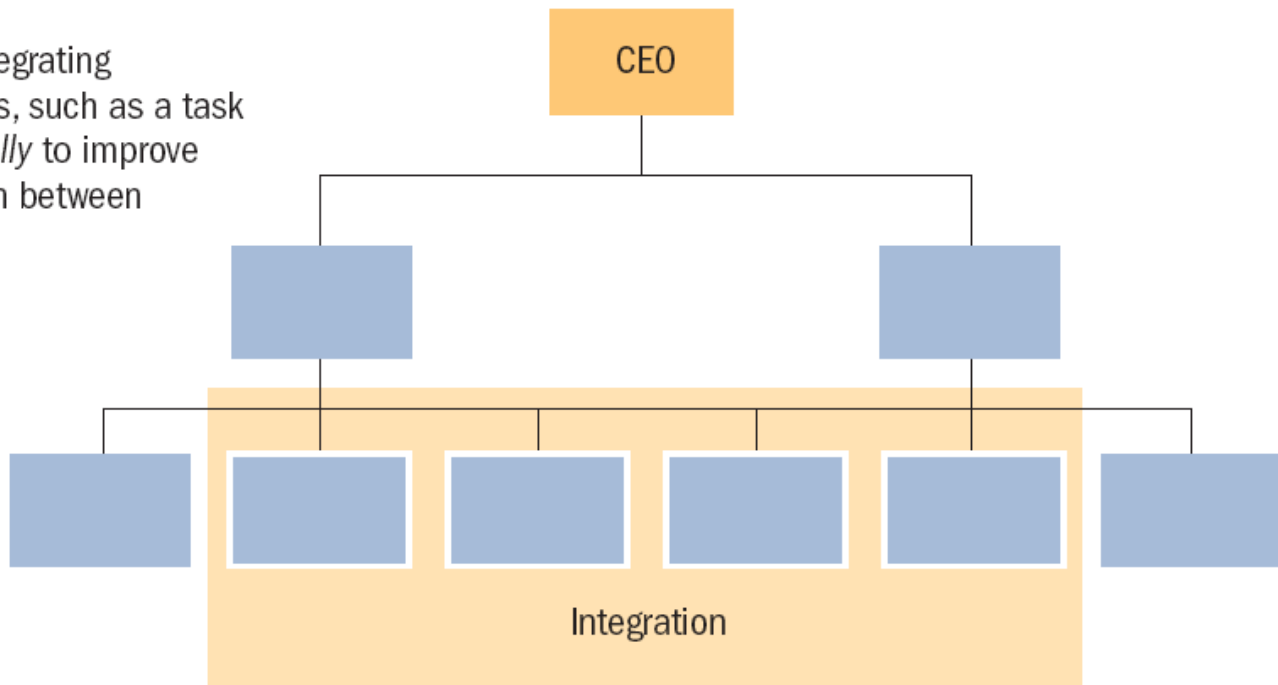


Figure 6.3 – Differentiation and Integration: How Organizations Increase Control Over Their Activities (cont.)

- B. Integration:**
Creating integrating mechanisms, such as a task force, *laterally* to improve coordination between subunits



Moving to a Divisional Structure

- Organizations most commonly adopt the divisional structure to solve control problems that arise with too many products, regions, or customers
- Divisional structure: A structure in which functions are grouped together according to the specific demands of products, markets, or customers

Product Structure

- Product structure: A divisional structure in which products (goods or services) are grouped into separate divisions according to their similarities or differences
- Organizations need to decide how to coordinate its product activities with support functions

Product Structure (cont.)

- Product division structure: A centralized set of support functions service the needs of a number of different product lines
- Each product division uses the services of the central support function
- Support function is divided into product-oriented teams who focus on the needs of one particular product division

Figure 6.4 – Product Division Structure

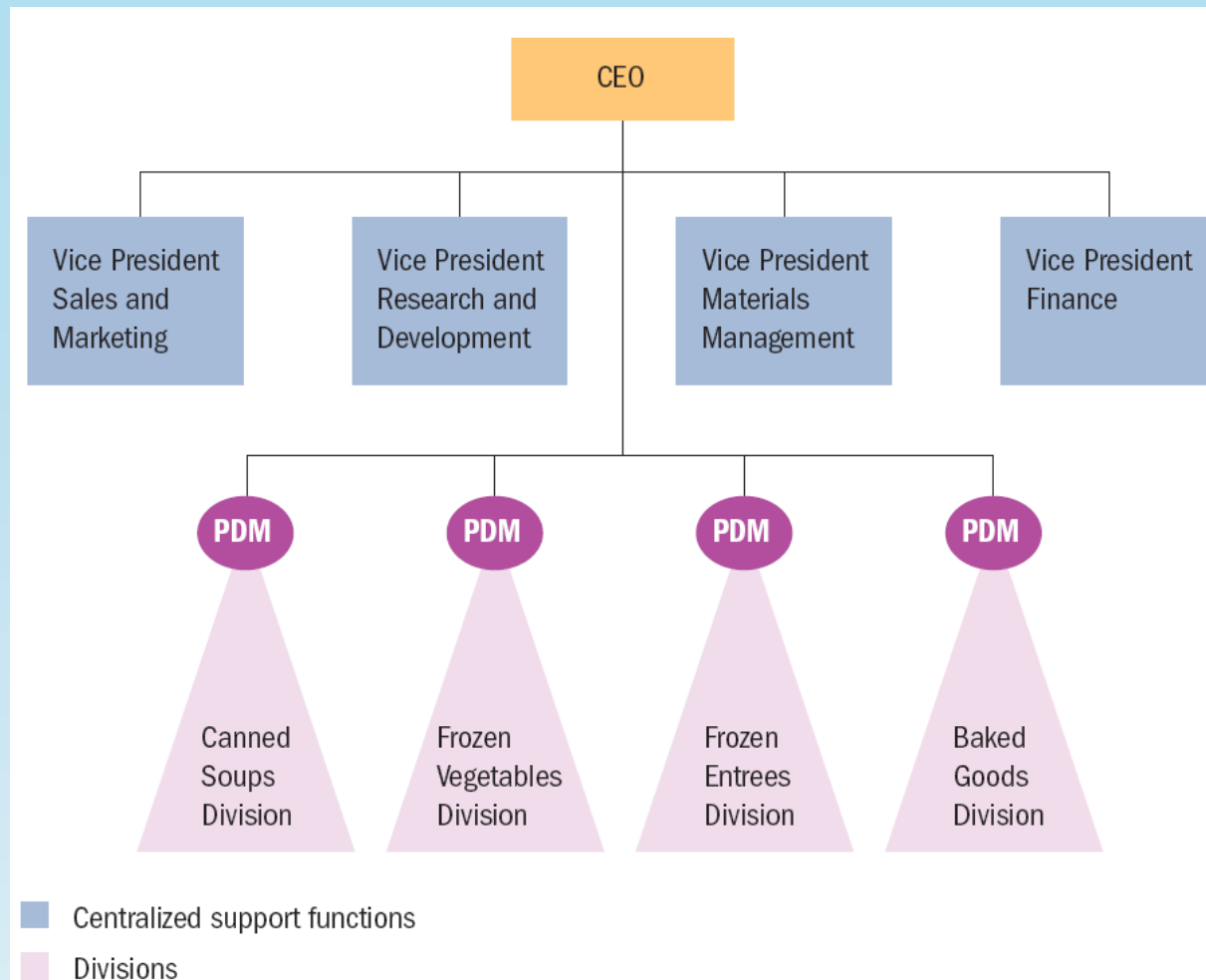
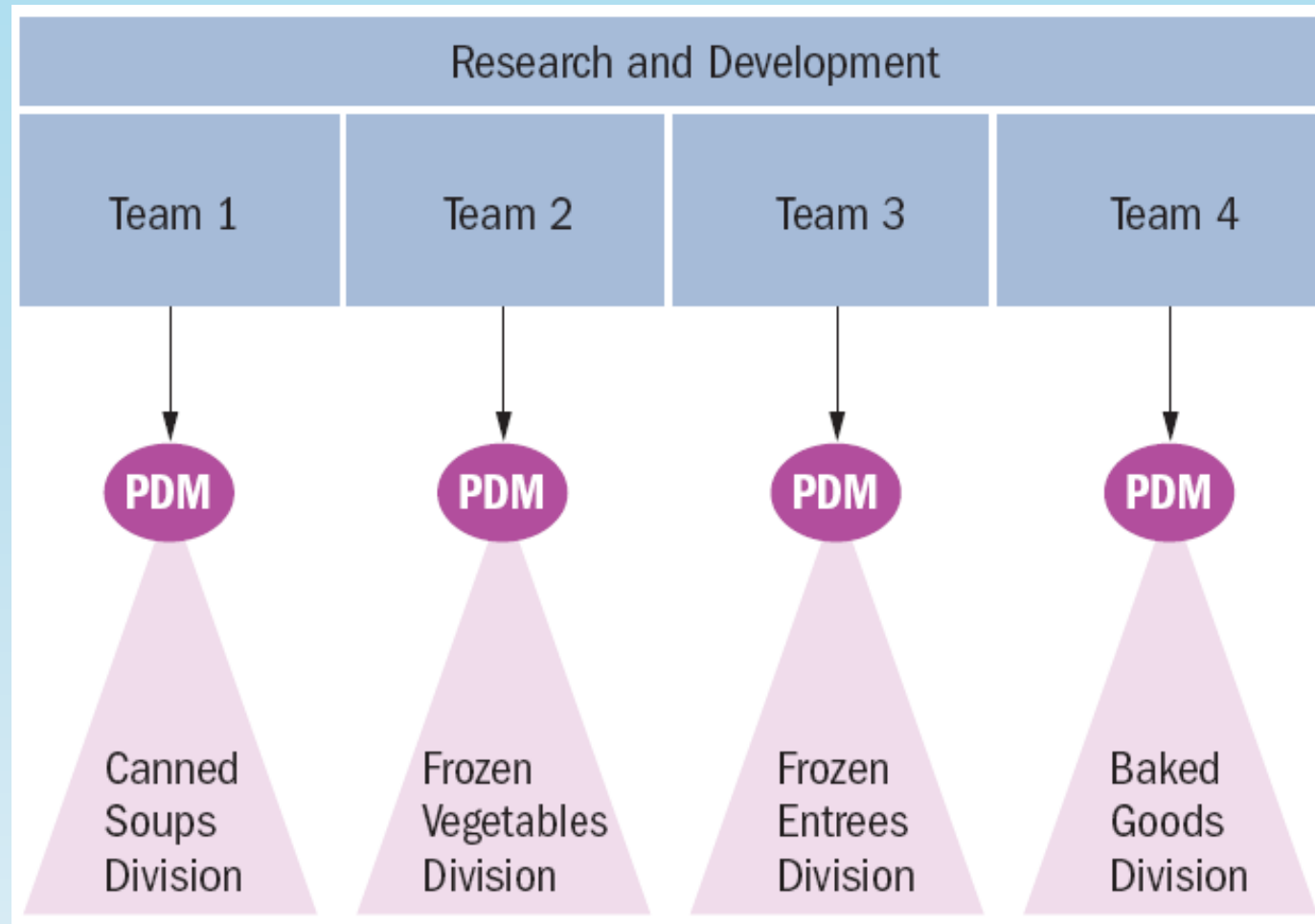


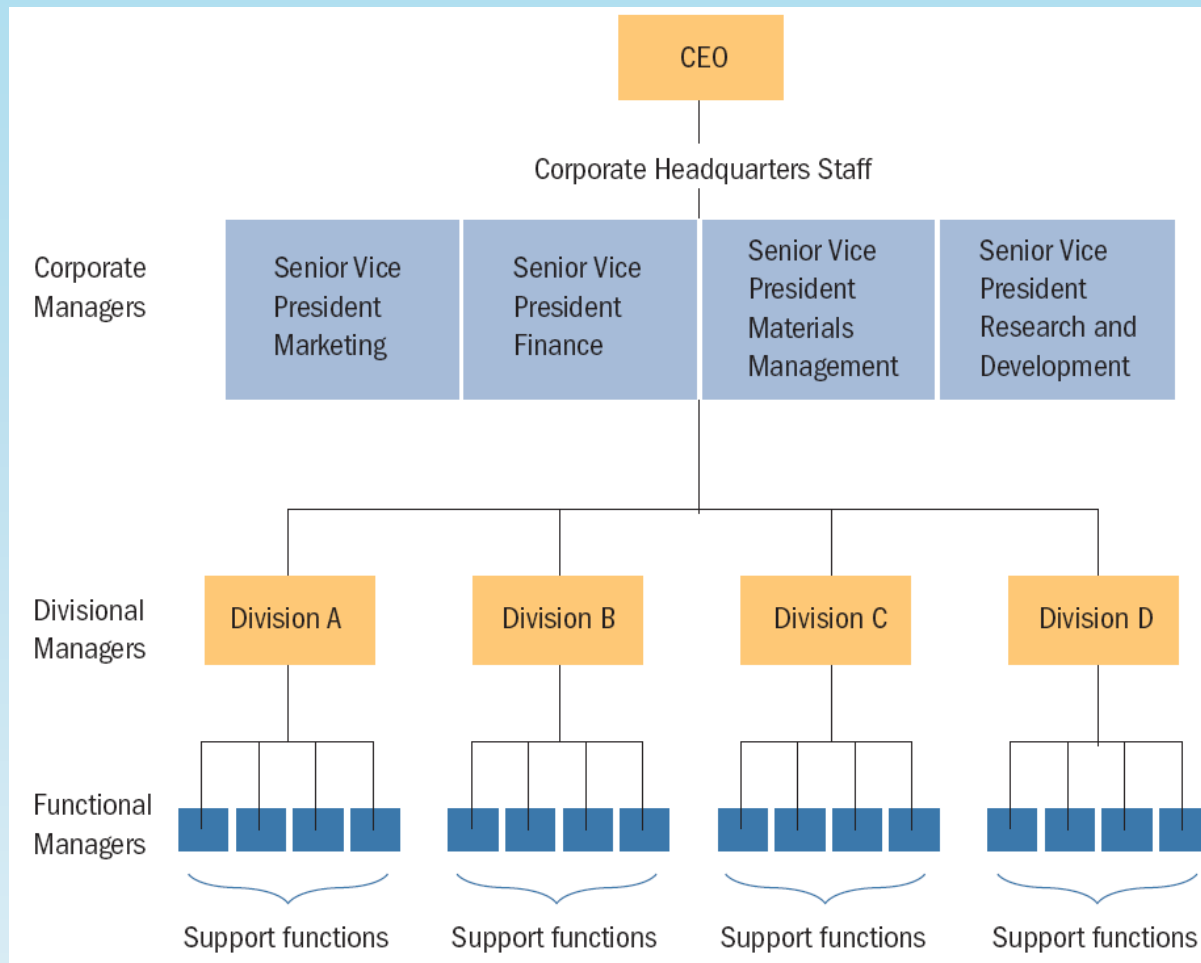
Figure 6.5 – Assignment of Product-Oriented Functional Teams to Individual Divisions



Product Structure (cont.)

- Multidivisional structure: A structure in which support functions are placed in selfcontained divisions
 - It has two innovations that overcome the control problems
 - Independence of each division
 - Corporate headquarters staff: Responsible for overseeing the activities of the managers heading each division

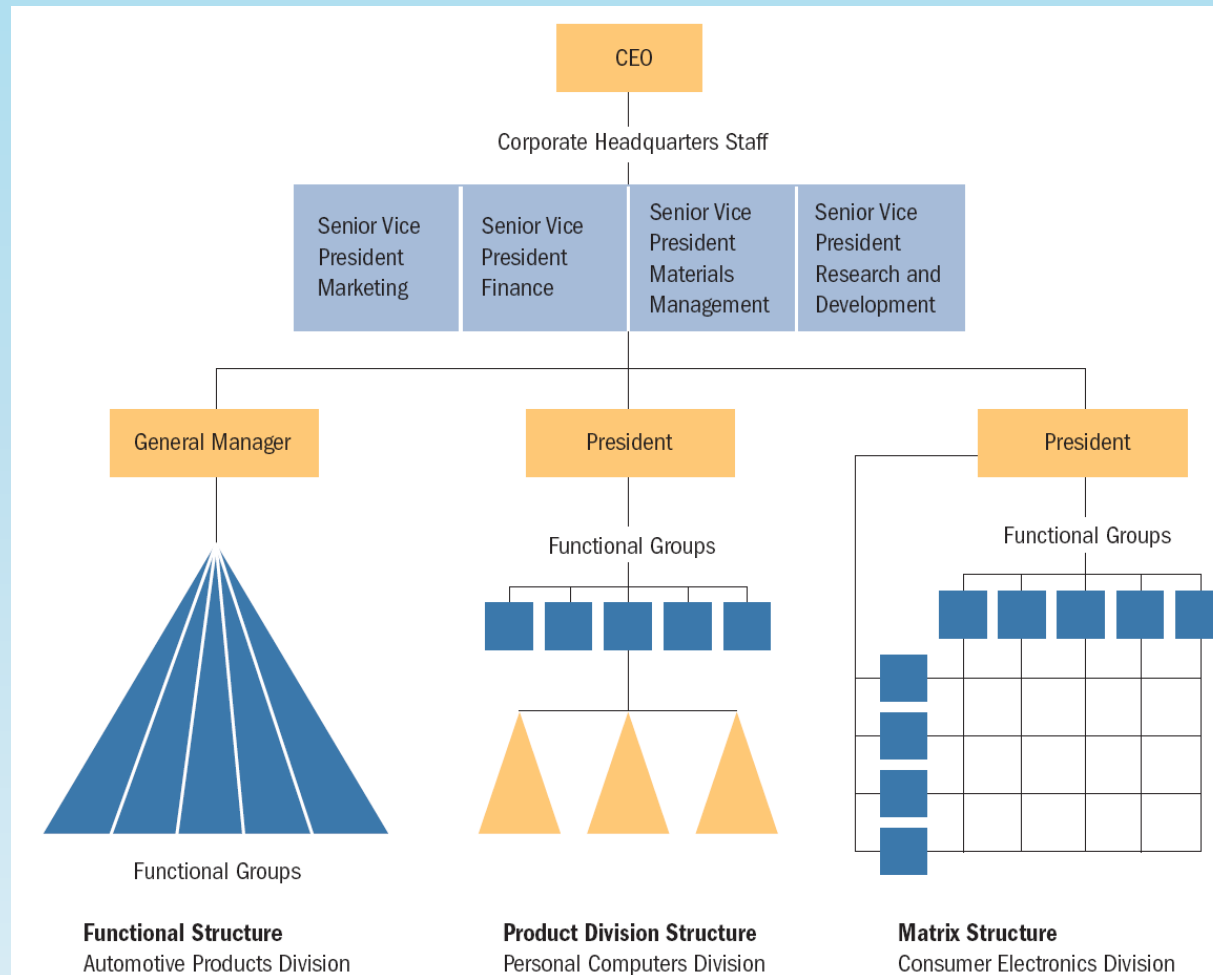
Figure 6.6 – Multidivisional Structure



Advantages of a Multidivisional Structure

- Increased organizational effectiveness
- Increased control
- Profitable growth
- Internal labor market

Figure 6.7 – Multidivisional Structure in Which Each Division Has a Different Structure



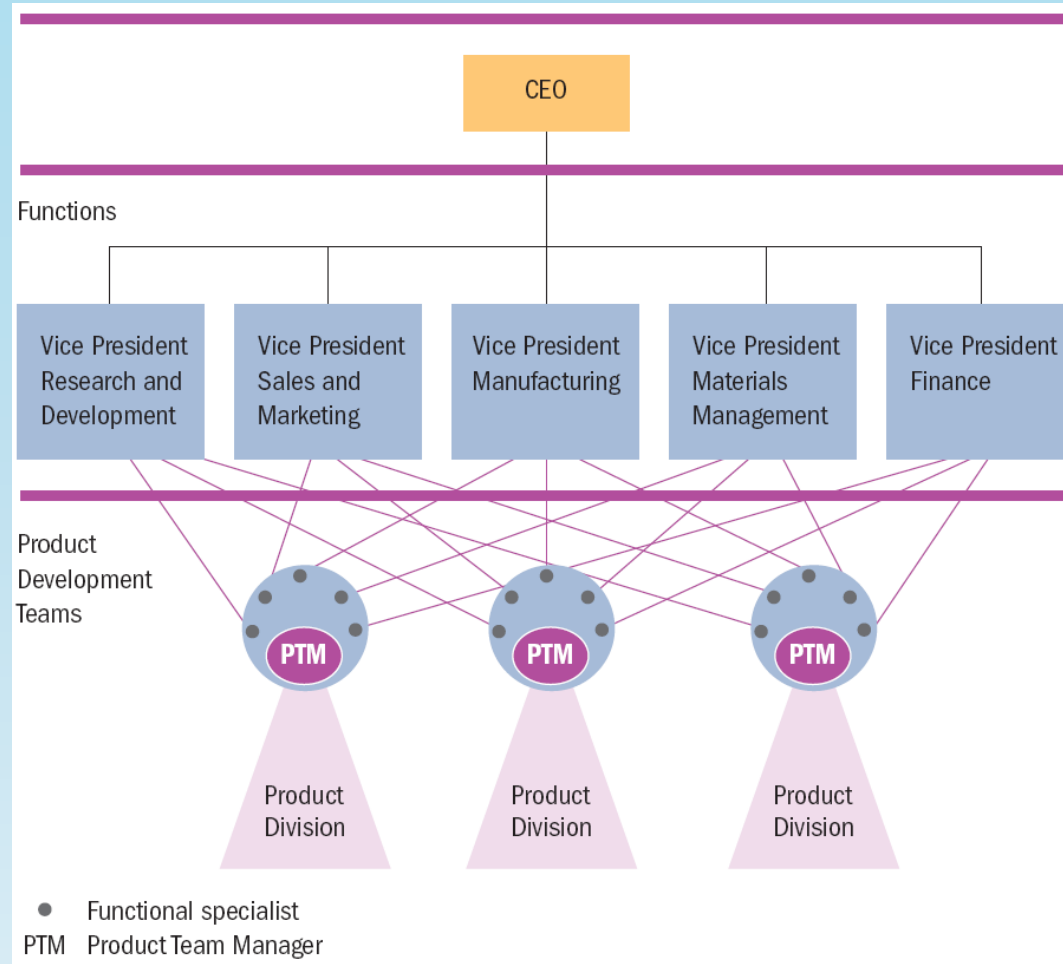
Disadvantages of a Multidivisional Structure

- Managing the corporate–divisional relationship
- Coordination problems between divisions
- Transfer Pricing
- Bureaucratic Costs
- Communication Problems

Product Structure

- Product team structure: Specialists from the support functions are combined into product development teams that specialize in the needs of a particular kind of product
- Each team is a self-contained division headed by a product team manager

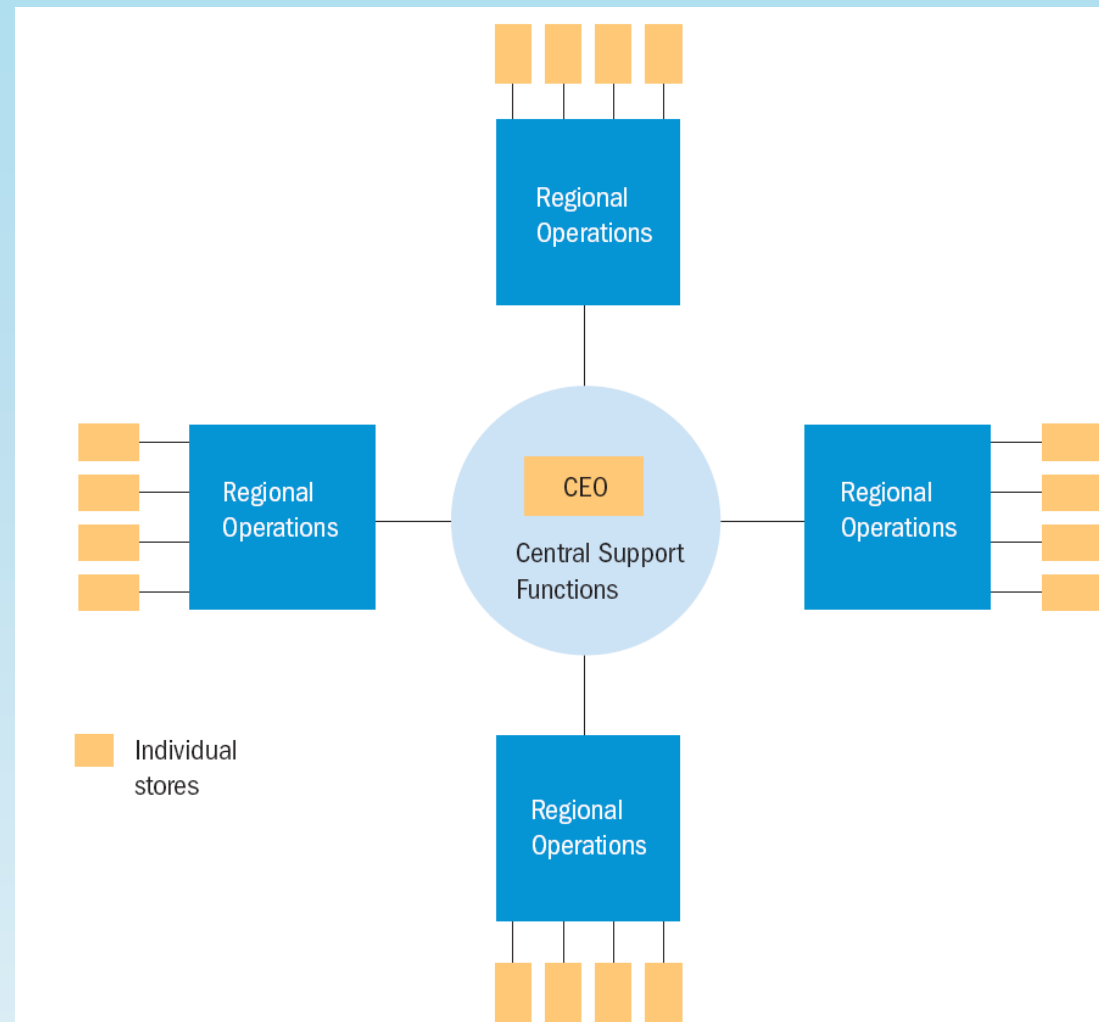
Figure 6.8 – Product Team Structure



Divisional Structure II: Geographic Structure

- A divisional structure in which divisions are organized according to the requirements of the different locations in which an organization operates
- Allows the organization to adjust its structure to align its core competences with the needs of customers in different geographic regions
- Allows some functions to be centralized and others decentralized

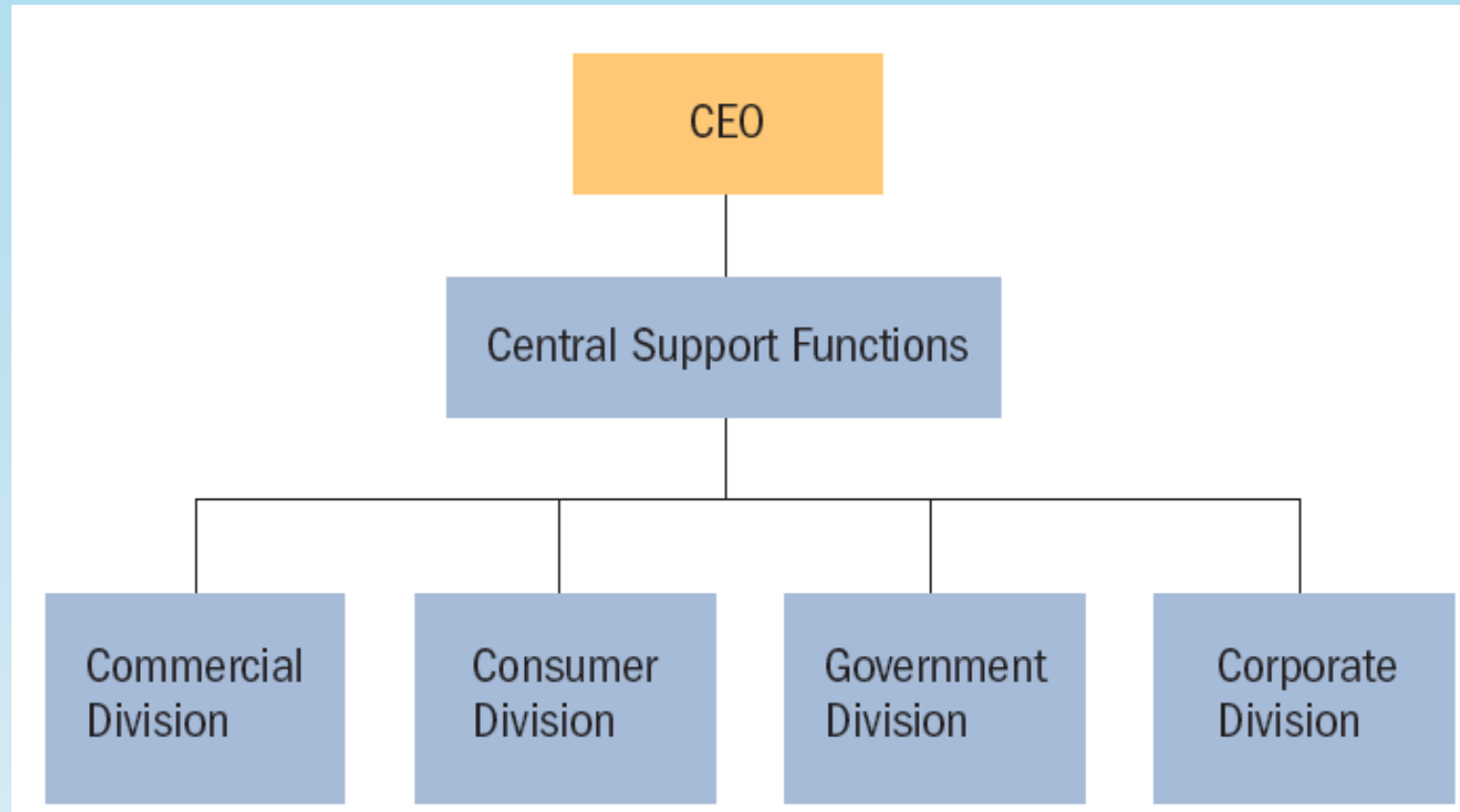
Figure 6.9 – Geographic Structure



Divisional Structure III: Market Structure

- A market structure aligns functional skills and activities with the needs of different customer groups
- Each customer group has a different marketing focus, and the job of each group is to develop products to suit the needs of its specific customers
- Each customer group makes use of centralized support function

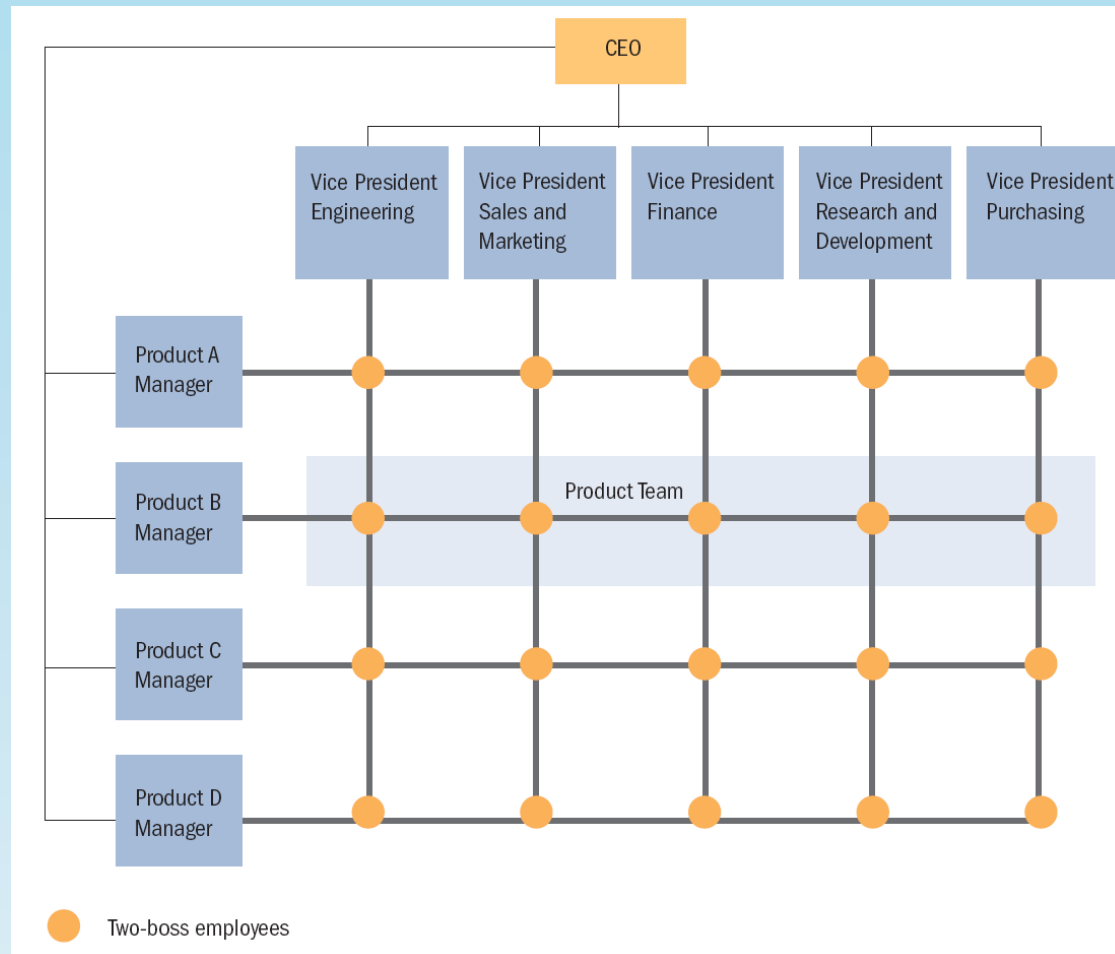
Figure 6.10 – Market Structure



Matrix Structure

- Matrix structure: People and resources are grouped in two ways simultaneously:
 - By function
 - By project or product
- Two-boss employees: Employees who report to two superiors: the product team manager and the functional manager

Figure 6.11 – Matrix Structure



Advantages of a Matrix Structure

- The use of cross-functional teams reduces functional barriers and subunit orientation
- Opens up communication between functional specialists
- The matrix enables an organization to maximize its use of skilled professionals, who move from product to product as needed
- The dual functional and product focus promotes concern for both cost and quality

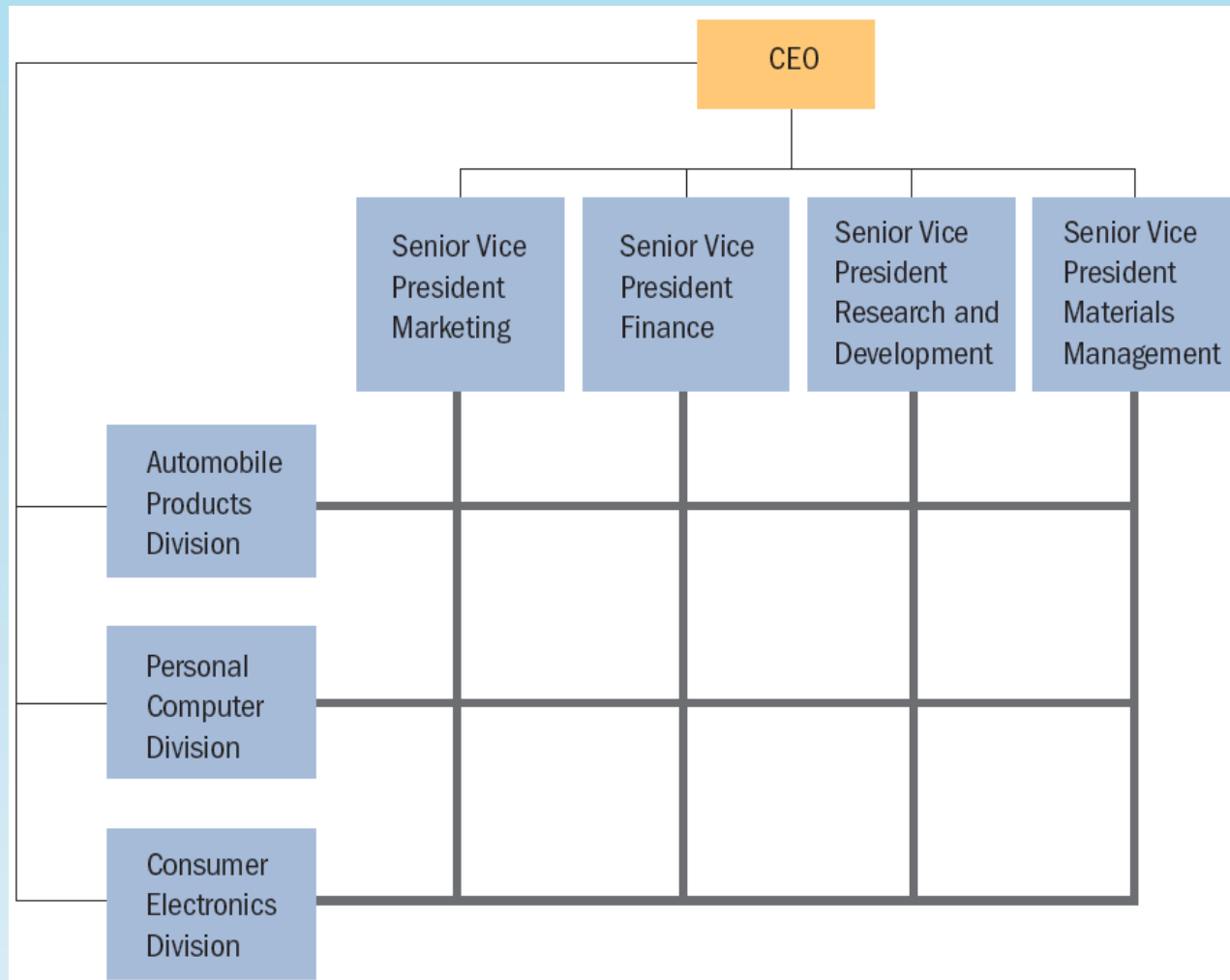
Disadvantages of a Matrix Structure

- Matrix lacks a control structure that leads employees to develop stable expectations of one another
- The lack of a clearly defined hierarchy of authority can lead to conflict between functions and product teams over the use of resources
- People are likely to experience a vacuum of authority and responsibility

The Multidivisional Matrix Structure

- Multidivisional matrix structure: A structure that provides for more integration between corporate and divisional managers and between divisional managers
- Makes it easier for top executives from divisions and corporate headquarters to cooperate and jointly coordinate organizational activities

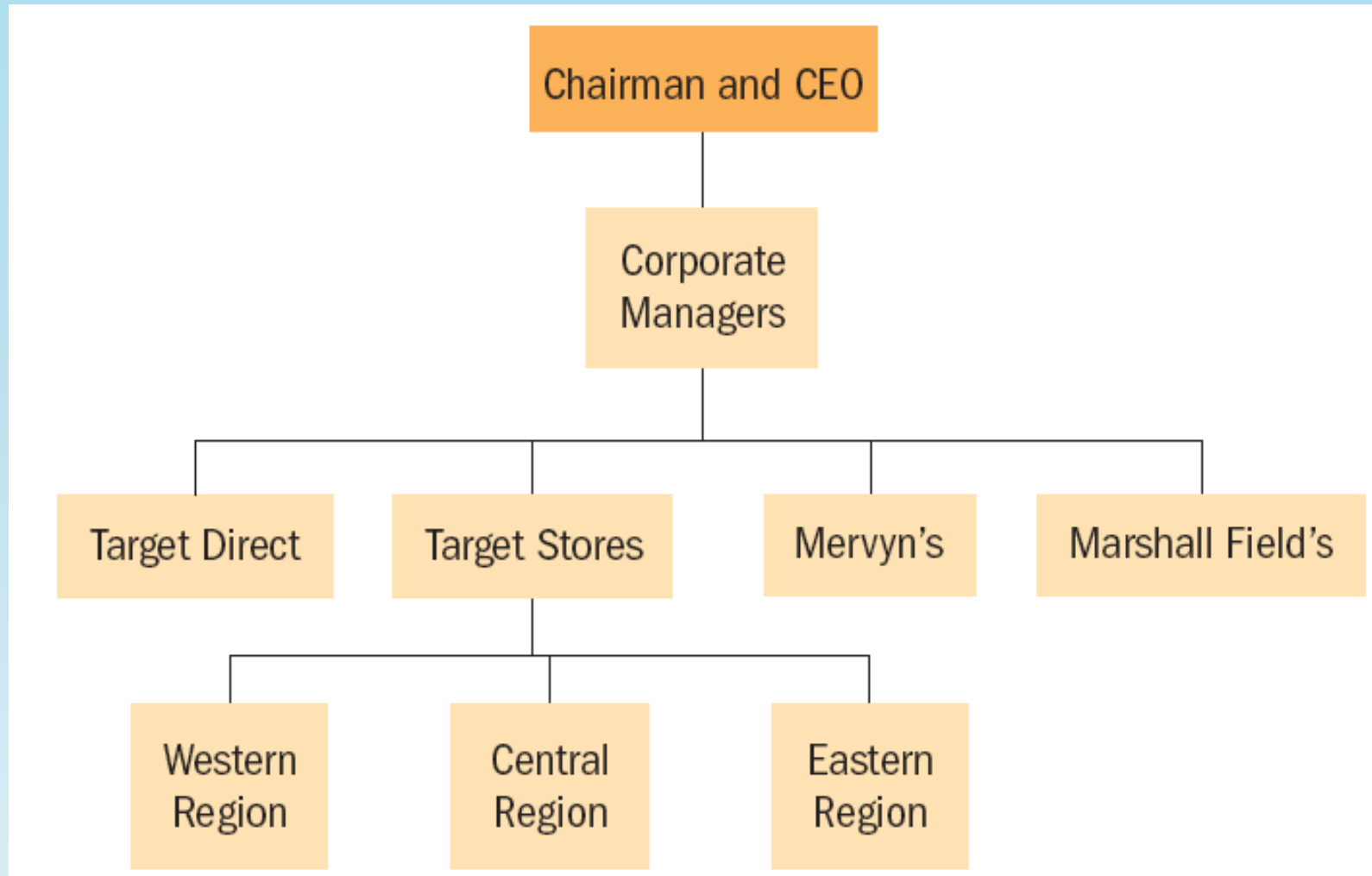
Figure 6.12 – Multidivisional Matrix Structure



Hybrid Structure

- It is the structure of a large complex organizations that has many divisions
 - Uses many different types of organizational structure
- Each product division's manager selects the structure (functional, product, geographic) that best meets the needs of their particular environment and strategy

Figure 6.13 – Target's Hybrid Structure



Network Structure

- A cluster of different organizations whose actions are coordinated by contracts and agreements rather than through a formal hierarchy of authority
- Very complex as companies form agreements with many suppliers, manufacturers, and distributors

Advantages of Network Structures

- Production costs are reduced
- Avoids the high bureaucratic costs of operating a complex organizational structure
- Allows an organization to act in an organic way
- Network partners can be replaced if they do not perform up to standards
- If network partners fail to perform, they can be easily replaced

Disadvantages of Network Structures

- A considerable level of mutual adjustment is needed to allow the groups to interact so that they can learn from one another and constantly improve the product
- Ability to control a complex value– creation process is difficult because managers lack the means to effectively coordinate and motivate the various network partners

The Boundaryless Organization

- Boundaryless organization: composed of people who are linked by computers, faxes, CAD systems, and video conferencing
- The use of outsourcing and the development of network organization are increasing rapidly as organizations recognize the many opportunities they offer to reduce costs and increase flexibility

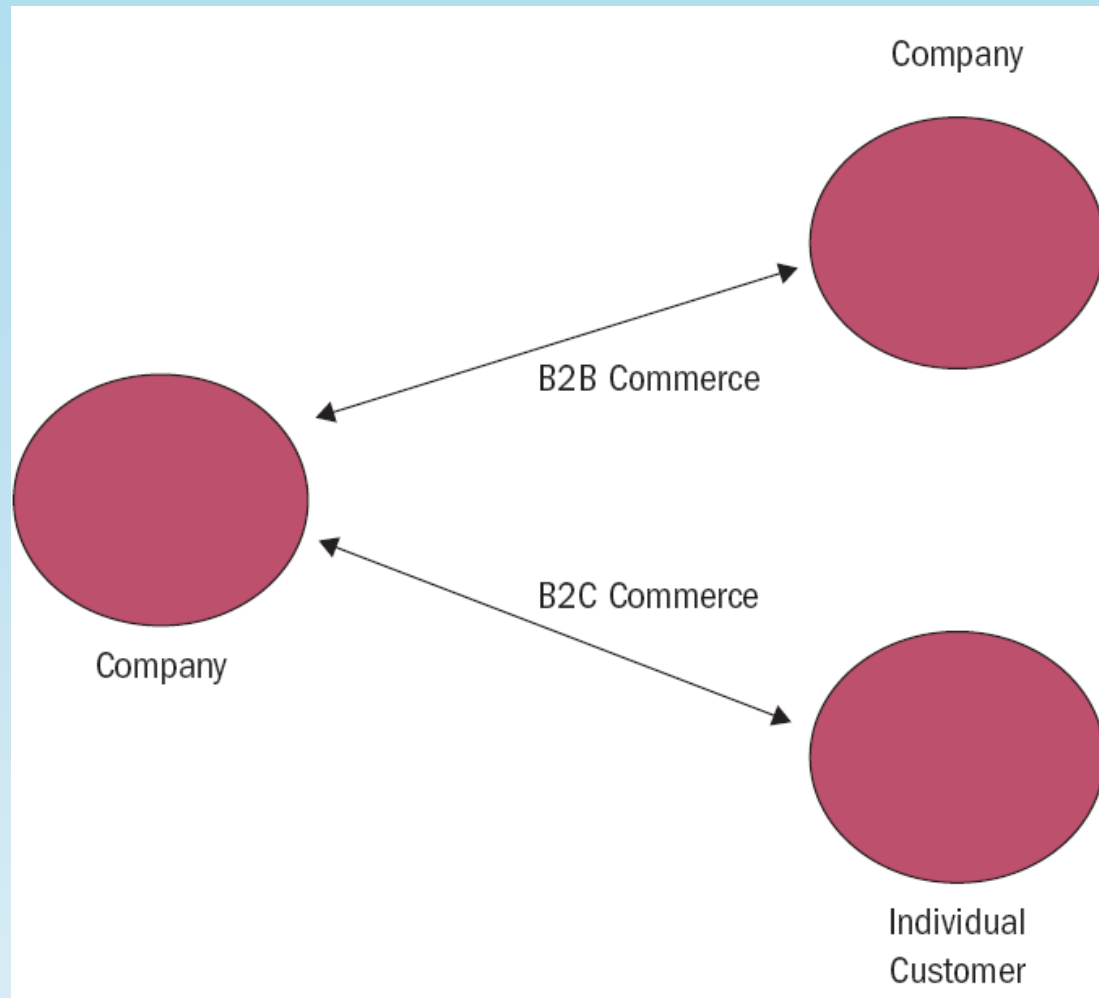
E-commerce

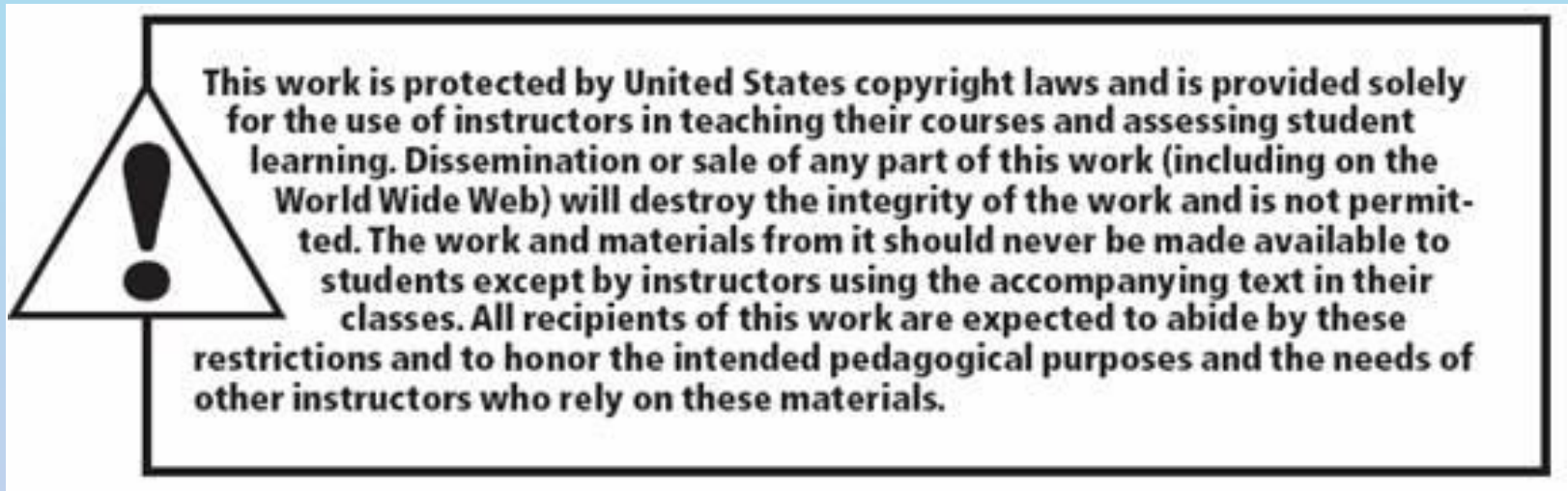
- It is the trade that takes place between companies, and between companies and individual customers, using IT and the Internet
- Business-to-business (B2B): trade that takes place between companies that links and coordinates their value chains
 - B2B marketplace – Industry-specific trading network connecting buyers and sellers

E-commerce (cont.)

- Business-to-customer (B2C): Trade that takes place between a company and its network of individual customers using IT and the Internet

Figure 6.14 – Types of E-Commerce





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